

## July's IGP-M: Smaller Monthly Deflation Points to an Inflationary Rebound

**Adriano Valladão\***  
adriano.ribeiro@santander.com.br  
+5511 3553 7495

**Felipe Kotinda\***  
felipe.kotinda@santander.com.br  
+5511 3553 8071

**Daniel Karp\***  
daniel.karp@santander.com.br  
+5511 3553 9828

- July's IGP-M came in at -0.72% MoM, slightly above consensus and our estimate (-0.73%). Of the last 46 prints, 37 surprised downward or did not surprise (80% of the prints came in below or equal to expectations). Twelve-month inflation reached -7.72% YoY, the lowest reading in the historical data for IGP-M.
- IPA-Agro posted deflation of 1.87% MoM, with the trend slowing to -24.5% 3MMA-saar (from -28.2% previously) but falling more than the -16.3% YoY reading (the lowest since October 2017).
- IPA-Industrial posted deflation of 0.75% MoM, with the trend easing to -15.0% 3MMA-saar (from -17.0% previously), running above the -9.6% YoY rate.
- IPA-industrial core gauge increased to -0.5% 3MMA-saar (from -2.0% previously), running below -1.1% YoY number, which we view as a sign that the YoY rate could rebound soon.
- IGP readings have been consistently favorable at the margin and are now at -7.7% YoY, the lowest reading in the historical data (since 1989). We are revising our IGP-M 2023 tracking to -3.4% (from -2.5%) given recent surprises. However, we note the recent spike in CRB, implying that risks are tilted to the upside.

**July's IGP-M came in at -0.72% MoM, slightly above the consensus and our estimate (-0.73%). Of the last 46 prints, 37 surprised downward or did not surprise (80% of the prints came in below or equal to expectations). Twelve-month inflation reached -7.72% YoY, the lowest reading in the historical data for IGP-M. The headline trend decelerated to -12.7% 3MMA-saar (from -14.6%).**

**Deflation was driven by corn (-5%), coffee (-14%), milk (-4%), industrialized food (-1%), gasoline (-7%), basic metallurgy (-2%), and chemical products (-1%).**

IPA-Agro posted deflation of -1.87% MoM, with the trend slowing to -24.5% 3MMA-saar (from -28.2% previously) but falling more than the -16.3% YoY reading (the lowest since October 2017). The negative print was influenced by corn (-5%), coffee (-14%), and milk (-4%). Overall, grains are still showing deflation, as the outlook for domestic supply in Brazil is favorable. However, it is worth noting that the decline is already decelerating, as corn showed deflation of -15% in June, while soybeans, which had been falling since December, were stable at the margin. The risks for now are both the weather in the U.S. and the war in Ukraine, especially the latter after Russia's withdrawal from the Black Sea grain deal and the recent attacks on Ukraine's two biggest port cities. For cattle, although the item was stable this month, we maintain call that the current favorable moment in Brazil's cattle cycle (with ample supplies) will mean low cattle prices in 2023.

IPA-Industrial posted deflation of 0.75% MoM, with the trend easing to -15.0% 3MMA-saar (from -17.0% previously), running above the -9.6% YoY rate. On the one hand, iron ore increased 3% MoM in July after the



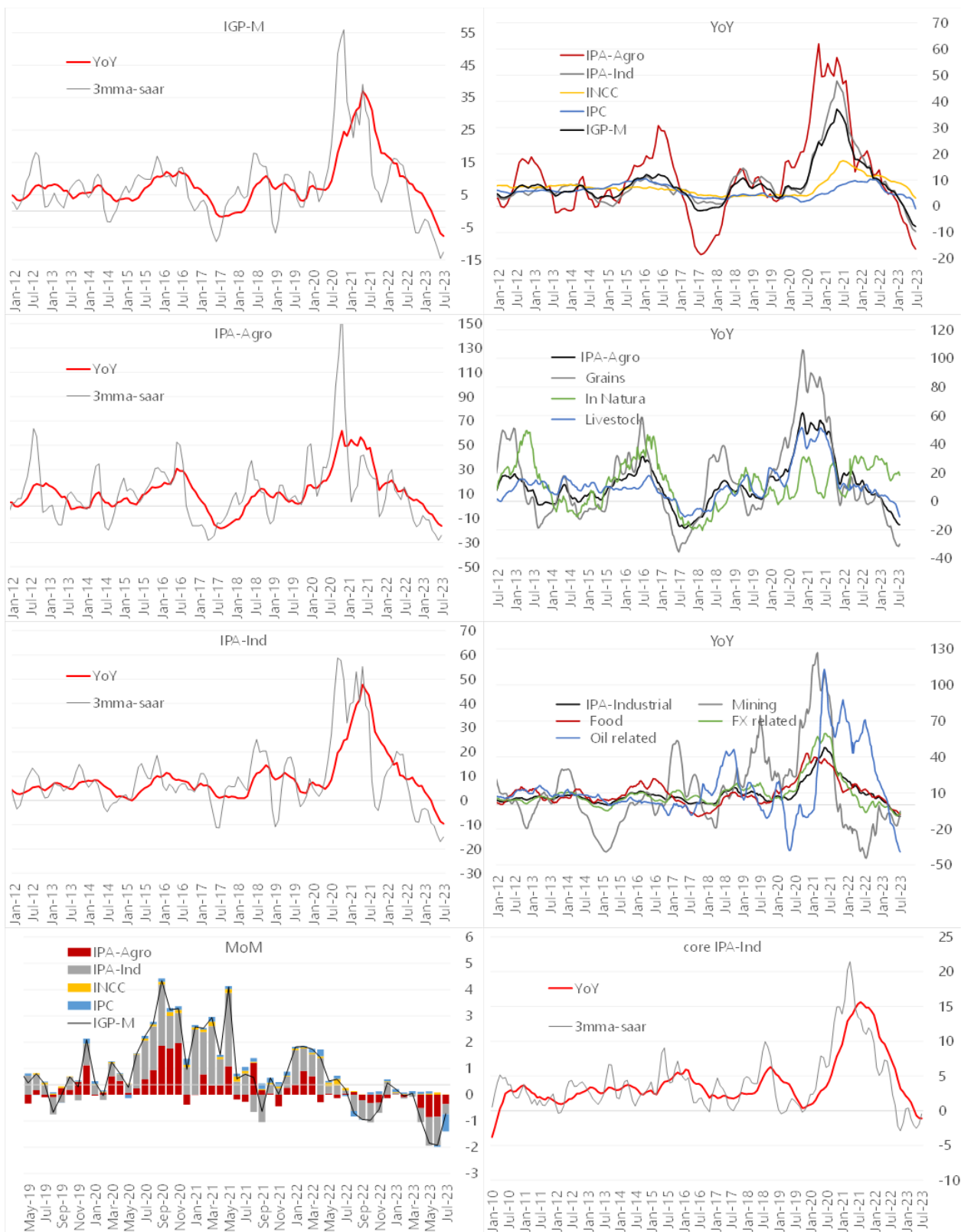
announcement of more government support in China, which boosted prices of iron ore prices and of metals in general. However, we believe the measures taken so far are not enough for a strong property recovery in China, meaning less support for metals prices ahead. On the other hand, oil-related items fell 4%, driven mostly by gasoline (-7%). Nevertheless, Chinese stimulus and Saudi Arabia's and Russia's cuts in oil supply have been driving prices upward lately to a level slightly below our Brent oil forecast, which is at USD 85/bbl for YE2023. Industrialized food (-1%), chemical products (-1%), and basic metallurgy (-2%) posted deflation in July.

IPA-industrial core gauge increased to -0.5% 3MMA-saar (from -2.0% previously), running below the -1.1% YoY number, which we view as a sign that the YoY rate could rebound soon. This is important because the IPA-industrial core gauge (which excludes iron ore, food, medicines, and fuels from the IPA-industrial headline) is more correlated with the industrial goods group in IPCA (durable goods in general), so it could also mean that the latter is near its lower bound. In the short term, we expect durable goods inflation in IPCA to continue to fall.

**IGP readings have been consistently favorable at the margin and are now at -7.7% YoY, the lowest reading in the historical data (since 1989). We are revising our IGP-M 2023 tracking to -3.4% (from -2.5%) given recent surprises. However, we note the recent spike in CRB (see Figure 2), implying that risks are tilted to the upside.**



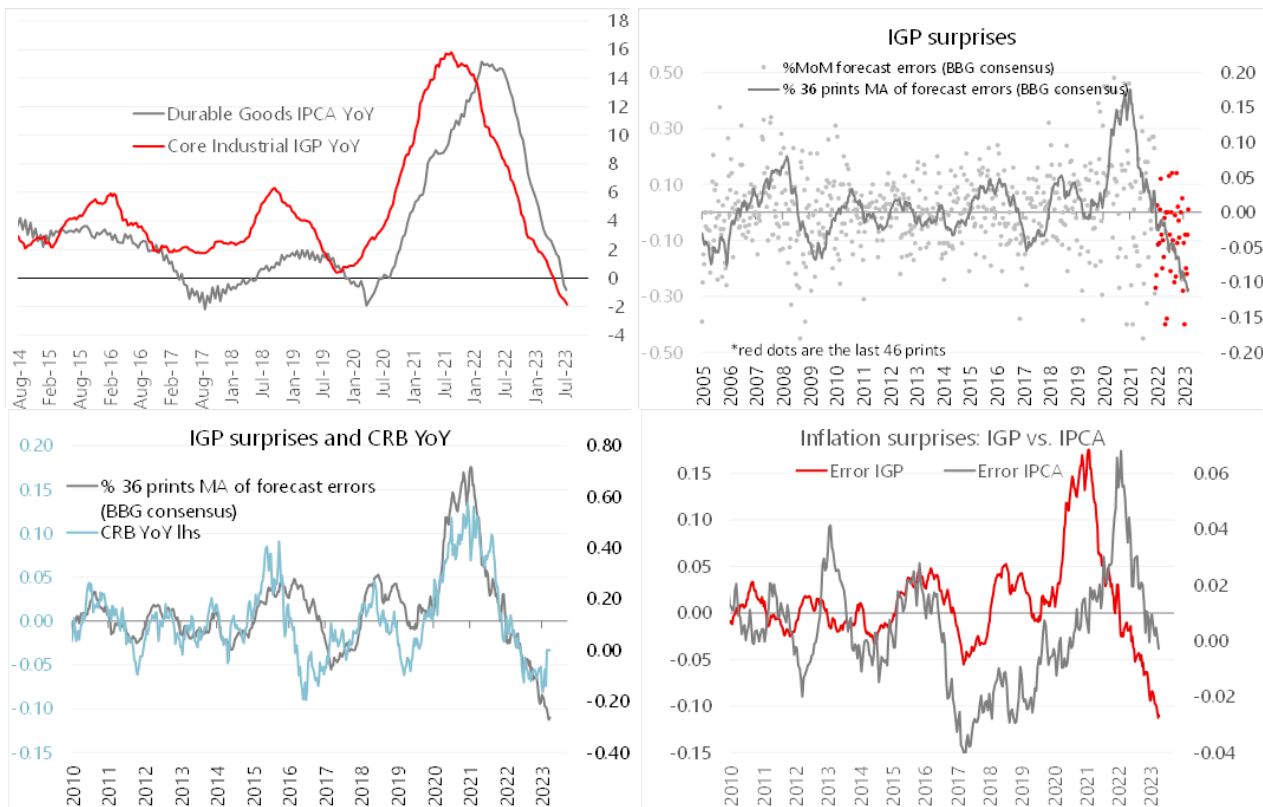
Figure 1. IGP-M, Groups and Qualitative Measures



Sources for all charts: FGV and Santander.



Figure 2. IGP-M Surprises, Groups and Qualitative Measures



Sources for all charts: FGV, IBGE and Santander.



Figure 3. IGP-M, Groups and Qualitative Measures

IGP chained %MoM	May-23			Jun-23			Jul-23		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
IGP	-1.53	-1.84	-2.33	-2.20	-1.93	-1.45	-1.10	-0.72	
IPA	-2.25	-2.72	-3.37	-3.14	-2.73	-2.13	-1.54	-1.05	
IPA-Agro	-3.91	-4.37	-4.57	-4.22	-4.36	-3.81	-3.40	-1.87	
Grains	-10.18	-10.58	-9.90	-8.01	-7.38	-5.86	-4.77	-1.39	
In Natura	-1.46	-2.21	-3.35	-3.27	-2.02	-0.29	0.74	-0.51	
Livestock	0.56	-0.04	-0.75	-2.11	-4.07	-4.18	-3.85	-1.64	
IPA-Industrial	-1.61	-2.08	-2.90	-2.72	-2.12	-1.49	-0.83	-0.75	
Mining	-9.87	-11.38	-10.02	-6.76	-1.76	-1.72	2.74	2.48	
Food	-0.84	-1.08	-1.18	-1.54	-1.81	-1.65	-1.30	-1.14	
FX related	-2.77	-3.11	-3.23	-2.41	-1.20	-1.07	-0.17	-0.32	
Oil related	-2.58	-4.36	-10.28	-11.47	-10.94	-6.72	-4.88	-3.64	
INCC	0.09	0.40	0.59	1.19	0.85	0.71	0.01	0.06	
IPC	0.60	0.48	0.08	-0.18	-0.25	-0.10	-3.21	-3.52	

IGP chained %YoY	May-23			Jun-23			Jul-23		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
IGP	-3.5	-4.5	-5.5	-6.3	-6.9	-7.4	-7.9	-7.7	
IPA	-6.3	-7.5	-8.9	-9.6	-10.3	-11.2	-11.5	-11.5	
IPA-Agro	-9.4	-11.2	-12.3	-13.2	-14.6	-15.1	-16.3	-16.3	
Grains	-22.6	-25.8	-28.0	-29.0	-30.8	-31.3	-31.5	-30.0	
In Natura	16.1	18.4	19.1	19.6	19.1	19.5	20.7	18.2	
Livestock	-0.3	-0.7	-1.2	-2.0	-3.9	-5.5	-8.8	-10.8	
IPA-Industrial	-5.0	-6.1	-7.5	-8.2	-8.7	-9.7	-9.6	-9.6	
Mining	-13.7	-15.9	-16.5	-17.5	-17.2	-16.8	-10.6	-5.3	
Food	-4.1	-4.4	-4.7	-4.9	-5.7	-6.8	-7.6	-7.9	
FX related	-6.4	-7.5	-8.5	-8.9	-8.9	-9.2	-7.8	-6.8	
Oil related	-17.8	-20.8	-27.3	-30.0	-31.8	-35.9	-37.8	-39.1	
INCC	6.9	6.3	5.4	4.7	4.3	3.9	3.4	3.2	
IPC	3.6	3.4	3.0	2.6	2.4	2.2	-1.1	-0.9	

Sources for all charts: FGV and Santander.



## CONTACTS / IMPORTANT DISCLOSURES

### Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

### Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park *	Economist – Argentina	rpark@santander.com.ar	54-11-4341-1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

### Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

### Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Aline de Souza Cardoso*	Head, Brazil	aline.souza.cardoso@santander.com.br	5511-3553-1684

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